ENERVEST DIVERSIFIED INCOME TRUST

Valuing Investors

2003 annual report

ENERVEST

Valuing Investors

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INVESTOR FIRST. CREDIBILITY.

President's Report to Unitholders

2003 HIGHLIGHTS

- **Increase in net assets from operations of $183.5 million.**
- **Revenues increased 85% to $61.9 million.**
- **Return to unitholders of 16.9%.**
- **Return to unitholders who participated in the Rights Offering of 27.8%.**
- **General and administrative costs on a per unit basis declined 34%.**
- **Trading volumes increased 60%.**

2003 has once again been a strong year in the trust sector and for EnerVest. As I touched upon last year, EnerVest believed this sector would continue to grow and expand which it has. We believe it will for 2004 as well. We feel new issues will come from all industries of the trust sector. Management of these trusts are critical as they must be credible, diligent, honest and take on an "Investor First" approach. The businesses must be an asset which fit into the trust structure and can continue to give yields to investors for a long period of time. Due diligence first, investment second.

EnerVest had an increase of $183.5 million in net assets from operations in 2003, a 318% increase over the $43.9 million in 2002. Revenues have increased 85% to $61.9 million. The return to unitholders in 2003 was 16.9%. Once again EnerVest completed a Rights Offering in 2003 with the return to unitholders who participated being 27.8%. General and administrative cost on a per unit basis continued to decline 34% and our commitment to continue this trend is on going. Trading volumes of EnerVest units increased 60% to approximately 206,000 units per day.

In March, 2004 the federal government announced a new budget which included measures that impacted the trust sector. The impacted changes includes restrictions on pension fund investment in the sector and the closing of a tax loophole in the determination of foreign ownership for oil and gas royalty trusts. Given our diversification and our active management we believe EnerVest is well positioned to meet the challenges created by the recent federal budget.

I would like to assure all unitholders that our declaration of trust restricts EnerVest from conducting transactions resulting in any type of off balance sheet financing. Our commitment is unwavering to our unitholders. Due diligence, financial review, proven management, solid business model, corporate governance, and diversification are all areas of review for the EnerVest portfolio. By following these criteria we continue to maximize monthly distributions, preserve capital, and reduce investment risk through diversification and maximizing the net asset value over the life of the trust.

On behalf of the EnerVest board of directors, management team and employees, we wish to thank you for your support and commitment to EnerVest and to assure you we continue to work for you.

Michael L. Streukens
President and Chief Executive Officer, EnerVest Diversified Management Inc.
Manager of EnerVest Diversified Income Trust
April 16, 2004

Investment Manager's Report to Unitholders

The income and royalty trust sector turned in yet another strong performance in 2003. Investors' search for tax effective yields pushed valuations in this sector higher as both short and long term interest rates fell to record lows. The number of new income and royalty trusts continued to grow with the total market capitalization of the sector now exceeding $100 billion.

2003 STRATEGY

Over the course of 2003 we generally moved the portfolio in a more conservative direction as we continued to have valuation concerns across most sectors in the income and royalty trust universe. In addition, with full employment of the leverage, we felt it prudent to be in trusts with highly stable and visible distributions. Consequently, the larger weightings were in the utility and real estate sectors. Core holdings including Fort Chicago Energy Partners L.P., Inter Pipeline Fund, RioCan Real Estate Investment Trust and H&R Real Estate Investment Trust. We continued our cautious stance toward the oil and gas sector with an average weighting in the portfolio of approximately 17%. We positioned the portfolio in oil and gas trusts where we felt there was either reasonable value or in smaller trusts that we believed had a competitive advantage in the acquisition market. Larger holdings included Vermilion Energy Trust and Crescent Point Energy Trust. We continued to maintain a significant position in business trusts. We feel these trusts will be able to grow their distributions as the economy recovers and provide significant diversification to the portfolio. Core holdings include BFI Canada Income Fund, Davis & Henderson Income Fund and Superior Plus Income Fund.

The proliferation of new trusts in 2003 allowed us to add several new names in the business trust sector, including ACS Media Income Fund, Yellow Pages Income Fund and Gateway Casinos Income Fund. We view the growth of business trusts as positive since it allows us to further diversify the portfolio.

OUTLOOK

We continue to view valuations and a rising interest rate environment as the principle risks to the income and royalty trust sector. Returns from this sector in 2004 are not likely to reach the levels of the last several years. The potential of a rising interest rate environment will have a negative impact on the trust sector – specifically on the more interest sensitive issues. It is our view that the trend of declining interest rates may have bottomed, however we expect any central bank tightening and the resulting rise in rates to be modest.

INVESTMENT MANAGER'S REPORT TO UNITHOLDERS, CONTINUED

The current correction is beginning to provide select opportunities to deploy capital. Yield spreads are starting to widen in the pipeline and utility sector making the sector more attractive. Valuations in the real estate sector remain high and we continue to maintain our cautious stance. We will continue to look for business trusts that are sensitive to economic growth, have low payout ratios with the ability to increase distributions and a growth oriented business model.

Greg Bay
President, Cypress Capital Management Ltd.
Investment Manager of EnerVest Diversified Income Trust
April 16, 2004

ACTIVE MANAGEMENT. MAXIMIZE NET ASSET VALUE.

Management's Discussion and Analysis

Michael L. Streukens
President & CEO

David J. Fischer
CFO

J. Ward Mallabone
Secretary

The following is a discussion of EnerVest Diversified Income Trust's results for the year ended December 31, 2003 and should be read in conjunction with the financial statements starting on page 12.

PORTFOLIO

The portfolio remains well diversified, comprising 76 funds in nine asset classes as at December 31, 2003. The portfolio weightings are as follows:

Consumer Products	24.0%	Energy Distribution	5.3%
Oil and Gas	16.7%	Industrials	5.2%
Pipeline and Utility	19.0%	Metals and Minerals	4.0%
Real Estate	18.0%	Paper and Forest Products	1.5%
Transportation and Environment	6.3%		

FINANCIAL PERFORMANCE

EnerVest Diversified Income Trust showed tremendous growth in 2003 as net assets increased $330.8 million (84%), from $392.6 million to $723.4 million at the end of 2003. This growth was attributable primarily to the increase in net assets from operations ($183.5 million), the successful Rights Offering ($118.8 million) and Exchange Offering ($126.7 million), which closed in February and October, respectively.

EnerVest provided a return to Unitholders in 2003 of 16.9% (2002 - 9.9%) based on the opening Toronto Stock Exchange ("TSX") value of $6.58 per unit (2002 - $6.90), the closing value of $6.77 (2002 - $6.58), cash distributions of $0.84 (2002 - $0.84) and an average trading value of rights of $0.08 (2002 - $0.16).

The return on units issued pursuant to the Rights Offering in February, to December 31, 2003, was 27.8% (based on the capital appreciation of these units plus distributions).

In the fourth quarter, EnerVest's total return was 8.9% as compared with the negative 1.7% in the fourth quarter of 2002.

	Quarter Ended 2003				Quarter Ended 2002			
	Dec	Sep	June	March	Dec	Sep	June	March
Revenues ($ Million)	18.7	14.2	14.7	14.3	12.1	7.9	7.3	6.1
Net Investment Income ($ Million)	15.0	11.0	11.8	11.8	9.8	6.0	5.5	4.7
Net Investment Income Per Unit	$0.15	$0.14	$0.15	$0.17	$0.17	$0.15	$0.14	$0.14
Increase In Net Assets From Operations Per Unit	$0.92	$0.35	$0.52	$0.32	$0.02	$0.23	$0.42	$0.49

Revenues increased 85%, from $33.4 million in 2002 to $61.9 million in 2003, mainly due to the larger investment portfolio resulting from the Rights Offering and Exchange Offering.

General and administrative costs increased $427,000 primarily due to the larger number of units outstanding. However, on a per unit basis, they decreased 34%, from $0.037 in 2002, to $0.024 in 2003. This reduction is primarily the result of the Manager's continued commitment to reduce general and administrative costs per unit, combined with economies of scale resulting from the increased number of units outstanding. This trend continued during the fourth quarter of 2003 as general and administrative costs per unit decreased 30% to $0.007 per unit, from $0.010 per unit in the fourth quarter in 2002.

During 2002, EnerVest reduced management fees from 1.5% of net asset value to 1.5% of the first $250 million of the net asset value and 1.0% thereafter. Despite this reduction, total management fees increased by $2.8 million in 2003 due to the significant increase in the net asset value of EnerVest.

Interest expense increased by $1.7 million in 2003. The increase was primarily due to the utilization of EnerVest's credit facility which has increased from $15 million in early 2002 to its current limit of $130 million in June 2003. Consistent with our investment philosophy, funds from this credit facility were invested in attractively priced income and royalty trusts that provide a balance of high cash distributions and the potential for capital appreciation.

Net investment income increased 91%, from $26.0 million in 2002, to $49.6 million in 2003, primarily as a result of the increased net asset value of EnerVest and the higher utilization of leverage in 2003.

EnerVest had realized capital gains of $5.9 million (2002 - $10.9 million) and an increase in unrealized gains in its portfolio of $128.0 million (2002 - $7.1 million). The resulting increase in net assets from operations was $183.5 million ($2.23 per unit) in 2003, a 318% increase over the $43.9 million in 2002 ($1.03 per unit)

The total return of EnerVest in 2003 was 24.0% (2002 - 7.2%), based on its closing and opening net asset values per unit of $7.22 (2002 - $6.50) and $6.50 (2002 - $6.85), respectively and distributions to unitholders of $0.84 per unit (2002 - $0.84).

CASH DISTRIBUTIONS

EnerVest distributed $0.84 per unit in 2003 and 2002. These distributions represent an annualized pre-tax yield of 12.8% (2002 - 12.2%) based on the opening TSX value of $6.58 per unit in 2003 (2002 - $6.90).

The distributions were 58.9% tax deferred (2002 - 47.1%) representing an after tax distribution rate of 8.6% (2002 - 8.4%), or an equivalent pre-tax interest rate of 17.1% (2002 - 16.7%), assuming a 50% marginal tax rate. In 2003, EnerVest continued its perfect record of monthly distributions since its inception as distributions were paid monthly to unitholders of record as of the last day of the month.

LIQUIDITY AND CAPITAL RESOURCES

EnerVest is a closed-end income trust. Its objectives are to maximize monthly distributions, reduce investment risk and maximize net asset value over its life.

EnerVest funds additional investments through equity issues, supplemented by its credit facility. EnerVest does not consider substantial levels of debt financing appropriate and its Trust Declaration limits borrowing to 20% of total assets, after giving effect to the borrowing. EnerVest has negotiated a

margin account, with a current limit of $130 million, at an interest rate of prime minus 0.5% per annum. As at December 31, 2003, approximately $129 million was outstanding on the margin account.

TRADING VOLUME

The average trading volume of EnerVest increased 60% in 2003, to approximately 206,000 units per day (2002 - 129,000 units per day). For the fourth quarter of 2003, the average daily trading volume of EnerVest was 251,000 units, up 120% from the fourth quarter of 2002 (114,100 units per day). The increased liquidity is primarily the result of the increased asset value of EnerVest and the higher number of units outstanding. EnerVest, the most liquid of all diversified income trusts in 2003, provides investors with the ability to easily move in and out of the market without a discernable effect on EnerVest's price.

EQUITY ISSUES

During 2003, EnerVest raised approximately $118.8 million of capital through a Rights Offering and approximately $126.7 million of capital through an Exchange Offering. In this Exchange Offering, holders of various trust and limited partnership units had the opportunity to exchange their units for units of EnerVest Diversified Income Trust.

During the year, the net assets of EnerVest increased by $330.8 million, from $392.6 million to $723.4 million, representing an 84% increase. This increase was primarily the result of the equity issues, the increase in net assets from operations, and the unrealized gains on investments during the year. The Manager believes this increased size provides both enhanced diversification and economies of scale resulting in increased liquidity and lower general and administrative costs per unit.

OUTLOOK

We are fairly optimistic on the outlook of EnerVest for 2004, although returns in the income and royalty trust sector are not expected to reach the levels of recent years. Current positive trends affecting the sector include continued increasing demand for income producing investments, more institutional investors entering the trust market, continued creation of new royalty and income trusts that provide greater diversification and the opportunity for capital appreciation, strong Canadian economy and strengthening US economy, expectation of continued low interest rates, and strong balance sheets and strong commodity prices in the oil and gas sector.

Negative trends include potential interest rate increases which could significantly impact interest sensitive issuers and a strong Canadian dollar negatively impacting several trusts, including those in the oil and gas sector.

Overall, these factors bode well for the outlook of the income and royalty trust industry and for the positive outlook of EnerVest.

RISK ASSESSMENT

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of EnerVest. Income risk arises from a number of factors related to the operational performance of the issuers' income and thus reduced distributions to unitholders. Diversification and active management by EnerVest's investment manager of the securities held in the portfolio may reduce these risks.

Due Diligence. Proven Management.

Management's Responsibility Statement

The financial statements of **EnerVest Diversified Income Trust** were prepared by, and are the responsibility of, the management of EnerVest Diversified Management Inc. (the "Manager") as agreed in the Management Agreement between the Manager and the Trust. These statements have been prepared in accordance with generally accepted accounting principles.

Management has designed and maintains a system of internal controls to safeguard assets and to ensure that transactions are properly authorized and recorded. Where estimates are used, management has ensured that careful judgment has been made and that these estimates are reasonable based on all information known at the time the estimate is made.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Manager, with the approval of the Board of Directors, has appointed PricewaterhouseCoopers LLP to examine the financial statements of the Trust and provide their independent opinion.

Michael L. Streukens
President and Chief Executive Officer
EnerVest Diversified Management Inc.
April 16, 2004

David J. Fischer
Chief Financial Officer
EnerVest Diversified Management Inc.

Auditors' Report

To the Unitholders of EnerVest Diversified Income Trust:

We have audited the statements of net assets and portfolio investments of **EnerVest Diversified Income Trust** as at December 31, 2003 and 2002 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material aspects, the financial position of the Trust and its portfolio investments as at December 31, 2003 and 2002 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
April 16, 2004
Calgary, Alberta

STATEMENTS OF NET ASSETS

December 31, 2003 and 2002

($ thousands except per unit amounts)	2003 $	2002 $
CURRENT ASSETS		
Cash	**3,758**	1,521
Investments, at market value (cost: 2003 - $685,154; 2002 - $423,857)	**849,169**	459,877
Accounts receivable	**6**	1,444
Distributions receivable	**6,667**	5,071
Current portion of promissory note receivable (Note 3)	**50**	50
	859,650	467,963
Promissory note receivable (Note 3)	**260**	310
Deferred charge	**9**	47
	269	357
	859,919	468,320
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	**539**	492
Distributions payable (Note 4)	**7,014**	4,228
Credit facility (Note 5)	**129,000**	70,993
	136,553	75,713
NET ASSETS	**723,366**	392,607
UNITS ISSUED AND OUTSTANDING (000's) (Note 6)	**100,205**	60,392
NET ASSET VALUE PER UNIT	**$7.22**	$6.50

Approved by the Board of EnerVest Diversified Management Inc., as Manager

Director: Michael L. Streukens

Director: David J. Fischer

STATEMENTS OF OPERATIONS

Years Ended December 31, 2003 and 2002

($ thousands except per unit amounts)	2003 $	2002 $
INVESTMENT REVENUES	**61,935**	33,426
EXPENSES		
General and administrative (Note 8)	**1,992**	1,565
Management fees (Note 8)	**7,203**	4,434
Interest on credit facility	**3,160**	1,451
	12,355	7,450
NET INVESTMENT INCOME	**49,580**	25,976
NET GAIN ON SALE OF INVESTMENTS	**5,949**	10,878
NET CHANGE IN UNREALIZED GAINS	**127,995**	7,058
INCREASE IN NET ASSETS FROM OPERATIONS	**183,524**	43,912
WEIGHTED AVERAGE UNITS OUTSTANDING (000's)	**82,400**	42,665
PER UNIT		
Net Investment Income	**$0.60**	$0.61
Net Gain on Sale of Investments	**$0.07**	$0.25
Net Change in Unrealized Gains	**$1.56**	$0.17
Increase in Net Assets from Operations	**$2.23**	$1.03

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31, 2003 and 2002

($ thousands)	2003 $	2002 $
NET ASSETS, BEGINNING OF YEAR	**392,607**	197,810
Increase (decrease) in net assets from:		
OPERATIONS:	**183,524**	43,912
UNITHOLDERS TRANSACTIONS:		
Net proceeds on issuance of trust units	**237,406**	200,713
Distributions to unitholders (Note 4)	**(70,412)**	(37,405)
Return of capital	**(21,442)**	(12,642)
Repurchase of trust units	-	(385)
Proceeds from dividend reinvestment plan	**1,683**	604
	147,235	150,885
NET ASSETS, END OF YEAR	**723,366**	392,607

STATEMENTS OF PORTFOLIO INVESTMENTS

December 31, 2003 and 2003

($ thousands)	2003 Adjusted Cost Base $	2003 Market Value $	2003 % of Market	2002 Adjusted Cost Base $	2002 Market Value $	2002 % of Market
OIL AND GAS						
Acclaim Energy Trust	5,437	6,117		9,943	10,109	
Advantage Energy Income Trust	-	-		6,303	9,539	
APF Energy Trust	-	-		1,381	1,462	
ARC Energy Trust	11,161	14,945		7,159	8,297	
Bonavista Energy Trust	6,913	8,973		-	-	
Canadian Oil Sands Trust	22,691	29,708		14,318	15,551	
Crescent Point Energy Trust	15,667	18,948		-	-	
Enerplus Resources Fund	11,996	18,138		14,654	16,737	
Focus Energy Trust	6,308	9,051		4,483	4,968	
Freehold Royalty Trust	3,410	6,332		2,480	3,102	
Harvest Energy Trust	1,689	2,040		1,852	2,256	
NAL Oil & Gas Trust	-	-		2,294	2,150	
Paramount Resources Ltd.	-	-		3,398	3,301	
Pengrowth Energy Trust	-	-		8,428	8,831	
Petrofund Energy Trust	1,508	1,815		-	-	
Ultima Energy Royalty Trust	-	-		1,334	1,416	
Vermilion Energy Trust	18,127	25,356		-	-	
Vermilion Resources Ltd.	-	-		7,746	7,728	
Viking Energy Royalty Trust	-	-		1,282	1,434	
	104,907	**141,423**	**16.7%**	87,055	96,881	21.1%
REAL ESTATE						
Alexis Nihon Real Estate Investment Trust	14,629	19,115		3,600	3,582	
Allied Properties REIT	4,627	6,097		-	-	
Boardwalk Equities Inc.	19,822	20,244		-	-	
Borealis Retail Real Estate Investment Trust	2,626	3,129		-	-	
Canadian Real Estate Investment Trust	7,892	10,445		7,108	7,495	
Chartwell Seniors Housing REIT	9,961	11,537		-	-	
Cominar Real Estate Investment Trust	4,759	6,112		2,217	2,644	
Dundee Real Estate Investment Trust	4,977	5,295		-	-	
H&R Real Estate Investment Trust	11,618	16,107		11,256	12,725	
IPC US Income Commercial REIT	1,847	1,925		-	-	
Legacy Hotels Real Estate Investment Trust	-	-		7,999	7,923	
Morguard Real Estate Investment Trust	634	744		548	548	
Northern Property Real Estate Investment Trust	2,477	2,713		-	-	
O&Y Real Estate Investment Trust	1,587	1,825		869	819	
Residential Equities REIT	1,354	1,563		1,357	1,331	
Retirement Residences REIT	10,065	12,147		8,859	9,150	
RioCan Real Estate Investment Trust	19,184	28,089		15,986	19,255	
Royal Host Real Estate Investment Trust	-	-		2,207	2,199	
Summit Real Estate Investment Trust	4,927	6,165		3,935	3,949	
	122,986	**153,252**	**18.0%**	65,941	71,620	15.6%
PAPER AND FOREST PRODUCTS						
PRT Forest Regeneration Income Fund	6,350	5,807		4,454	4,484	
SFK Pulp Fund	7,293	6,766		12,097	12,165	
TimberWest Forest Corp.	-	-		11,401	11,776	
	13,643	**12,573**	**1.5%**	27,952	28,425	6.2%
TRANSPORATION AND ENVIRONMENT						
BFI Canada Income Fund	17,580	26,849		10,594	12,230	
Halterm Income Fund	-	-		917	1,596	
IAT Air Cargo Facilities Income Fund	-	-		5,187	4,798	
Livingston International Income Fund	4,371	6,806		3,669	4,207	
Oceanex Income Fund	2,270	3,216		3,346	3,827	
Westshore Terminals Income Fund	13,446	16,758		11,594	9,705	
	37,667	**53,629**	**6.3%**	35,307	36,363	7.9%

Statements of Portfolio Investments, continued

December 31, 2003 and 2002

($ thousands)	2003 Adjusted Cost Base $	2003 Market Value $	2003 % of Market	2002 Adjusted Cost Base $	2002 Market Value $	2002 % of Market
CONSUMER PRODUCTS						
A&W Revenue Royalties Income Fund	4,966	5,216		4,621	4,664	
ACS Media Income Fund	14,497	16,191		-	-	
Arctic Glacier Income Fund	8,013	9,126		2,810	2,718	
Associated Brands Income Fund	10,796	11,736		3,406	3,629	
Atlas Cold Storage Income Trust	14,463	10,244		14,590	17,599	
Boston Pizza Royalties Income Fund	3,446	4,300		1,995	2,029	
Clearwater Seafoods Income Fund	18,686	22,131		10,524	10,833	
Connors Bros. Income Fund	10,355	12,914		8,536	10,301	
The Consumers' Waterheater Income Fund	8,875	11,356		4,999	5,255	
Davis & Henderson Income Fund	16,220	27,125		15,527	19,214	
Firm Capital Mortgage Investment Trust	4,650	5,190		3,859	3,979	
Gateway Casinos Income Fund	6,314	9,741		4,474	4,635	
Hot House Growers Income Fund	1,800	1,982		-	-	
The Keg Royalties Income Fund	6,326	6,565		6,367	6,032	
Menu Foods Income Fund	14,971	14,739		-	-	
North West Company Fund	-	-		1,152	1,478	
Rainmaker Income Fund	-	-		769	739	
Rogers Sugar Income Fund	2,145	2,406		3,331	3,460	
SCI Income Trust	5,603	6,869		5,470	7,128	
Sun Gro Horticulture Income Fund	12,251	10,520		5,184	5,332	
UE Waterheater Income Fund	7,245	8,294		-	-	
Yellow Pages Income Fund	7,614	7,598		-	-	
	179,236	**204,243**	**24.0%**	97,614	109,025	23.7%
ENERGY DISTRIBUTION						
Energy Savings Income Fund	5,676	9,880		4,808	4,202	
Keyspan Facilities Income Fund	6,194	7,893		-	-	
Superior Plus Income Fund	21,603	27,480		4,739	5,890	
	33,473	**45,253**	**5.3%**	9,547	10,092	2.2%
PIPELINE AND UTILITY						
Algonquin Power Income Fund	7,266	8,411		7,858	7,565	
Bell Nordiq Income Fund	8,276	11,572		7,954	8,536	
Boralex Power Income Fund	761	778		7,533	7,788	
Calpine Power Income Fund	12,742	15,710		-	-	
Fort Chicago Energy Partners L.P.	16,357	21,488		10,793	11,178	
Great Lakes Hydro Income Fund	21,960	25,976		2,697	2,798	
Innergex Power Income Fund	14,189	15,589		-	-	
Inter Pipeline Fund	16,664	20,040		13,962	13,142	
Northland Power Income Fund	7,944	9,951		4,523	5,745	
Pembina Pipeline Income Fund	7,276	10,077		6,336	7,489	
Taylor NGL Limited Partnership	1,253	1,434		-	-	
TransAlta Power L.P.	8,753	12,002		6,124	8,066	
TransCanada Power L.P.	6,959	8,188		5,788	5,697	
	130,400	**161,216**	**19.0%**	73,568	78,004	16.9%
INDUSTRIALS						
Advanced Fiber Technologies Income Fund	1,164	1,391		958	959	
Chemtrade Logistics Income Fund	11,142	15,822		5,841	7,639	
Great Lakes Carbon Income Fund	8,760	9,056		-	-	
Tree Island Wire Income Fund	15,146	17,550		6,787	6,486	
	36,212	**43,819**	**5.2%**	13,586	15,084	3.3%
METALS AND MINERALS						
Labrador Iron Ore Royalty Income Fund	9,485	13,072		9,773	10,794	
Noranda Income Fund	17,145	20,689		3,514	3,589	
	26,630	**33,761**	**4.0%**	13,287	14,383	3.1%
TOTAL	**685,154**	**849,169**	**100.0%**	423,857	459,877	100.0%

Notes to the Financial Statements

December 31, 2003 and 2002

1. ORGANIZATION OF THE TRUST

EnerVest Diversified Income Trust ("EnerVest") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 5, 1997 (as amended and restated from time to time). EnerVest is managed by EnerVest Diversified Management Inc. (the "Manager") and the fund manager is Cypress Capital Management Ltd. (the "Fund Manager"). EnerVest was listed on the Toronto Stock Exchange and commenced operations on August 7, 1997. EnerVest shall continue until the year 2050 and its investment objective is to maximize monthly distributions and provide a cost-effective method of reducing investment risk primarily through investments in royalty and income trusts.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies.

Cash

Cash comprises cash on hand.

Valuation

Investments are stated at market values based on closing market quotations. Short-term debt instruments are recorded at cost which approximates market value. The fair value of other financial instruments included in the balance sheet approximate their carrying value due to their short maturity or earn interest at a floating interest rate.

Income recognition

Investment transactions are recorded on the trade date. Realized gains or losses resulting from the sale of investments and unrealized appreciation or depreciation of investments is determined on an adjusted cost basis. Realized gains or losses resulting from the sale of short-term debt instruments are recorded as interest income. Distributions from income funds and trusts and dividend income earned from portfolio investments are recognized based upon the ex-distribution or ex-dividend date.

Return of capital

Distributions received from income funds and trusts that are a return of capital for income tax purposes are separately identified within the statement of changes in net assets and reduce the average cost base of the underlying securities in the investment portfolio.

Financial instruments

Financial instruments include portfolio investments which are carried at market value. All other financial instruments, including, but not limited to, accounts receivable, distributions receivable, accounts payable, accrued liabilities and distributions payable, approximate market value due to their short-term nature.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

3. PROMISSORY NOTE RECEIVABLE

In connection with the public offering of Trust Units in 1999, EnerVest paid solicitation and advisory fees totalling $499,135 which are to be reimbursed by the Manager over a ten year period ending December 22, 2009. The receivable is evidenced by a promissory note under which principal payments are being made to EnerVest in 40 equal payments of $12,478 plus interest at the rate of prime plus 0.25% per annum commencing April 1, 2000. The payment dates are the first day of January, April, July and October of each year.

4. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to Unitholders of record on the last day of each month, payable no later than the 15th day of the following month. Monthly, EnerVest is required to distribute to each Unitholder, as a minimum, their pro-rata share of the income and other distributions which EnerVest has received or realized from its investments during the month less estimated expenses of EnerVest.

5. CREDIT FACILITY

During April 2002, EnerVest terminated a $15 million bank credit facility and established a margin account at a major brokerage firm. As at December 31, 2003, the margin account limit was $130 million, of which $129 million (2002 - $71 million) was utilized. Such borrowing is restricted to 20% of EnerVest's total assets. This facility is due on demand, is secured by certain portfolio investments and bears interest at prime minus 0.5% per annum.

6. UNITHOLDERS' EQUITY

The authorized capital of EnerVest consists of an unlimited number of EnerVest Units. A beneficial interest in the net assets and the net income of EnerVest is divided into transferable non-redeemable Trust Units of equal value. Each unit is entitled to one vote and to participate equally with all other Trust Units with respect to all payments made to holders of Trust Units out of EnerVest's assets. During 2003 and 2002, Trust Units were issued and repurchased as follows:

	2003		2002	
(in thousands)	Number of Units	Amount $	Number of Units	Amount $
Units, beginning of year	**60,392**	**394,394**	28,877	193,461
Repurchased	-	-	(58)	(385)
Issued	**39,813**	**247,169**	31,573	209,313
Cost of public issue	-	**(8,081)**	-	(7,995)
Units, end of year	**100,205**	**633,482**	60,392	394,394

In February 2003 and 2002, EnerVest closed rights offerings, issuing an additional 20,135,005 and 11,640,436 Trust Units respectively, for total proceeds of $118.8 million and $71.0 million respectively.

In October 2003 and 2002, EnerVest closed exchange offerings whereby EnerVest issued 19,426,971 and 19,841,770 Trust Units respectively, for total proceeds of $126.7 million and $137.7 million respectively, in exchange for certain royalty, income trust, and limited partnership units.

Notes to the Financial Statements, continued

6. UNITHOLDERS' EQUITY, continued

Included in issued units for 2003 is $1,682,402 representing 251,460 units (2002 - $604,167 representing 90,980 units) issued under the distribution reinvestment plan. Pursuant to this plan, Unitholders who are resident in Canada may elect to have all of their cash distributions and additional cash contributions (currently up to $1,000 per month) invested in additional EnerVest units. Participants do not pay any costs associated with the distribution reinvestment plan including the payment of brokerage commissions. Reinvestment of cash distributions will not relieve participants of any income tax applicable to such distributions.

During 2003, no units were repurchased under the normal course issuer bid. During 2002, EnerVest repurchased 58,400 units through its normal course issuer bid for an average price of $6.58.

7. INCOME TAXES

EnerVest is a taxable entity for income tax purposes and is taxable on any income that is not distributed to the Unitholders. It is the intention of EnerVest to distribute all of its net income and sufficient net realized capital gains so that it will not be subject to income taxes, other than foreign withholding taxes, if applicable.

8. RELATED PARTY TRANSACTIONS

The Manager, EnerVest Diversified Management Inc. is responsible for the business affairs of EnerVest and is entitled, pursuant to the Declaration of Trust, to a management fee, based on the net asset value of EnerVest, at an annual rate of 1.5% on the first $250 million and 1% thereafter, payable monthly, calculated using the average daily net asset value and is also reimbursed for all administrative expenses incurred which relate to the operation of EnerVest.

For the year ended December 31, 2003, the administrative expenses charged to EnerVest amounted to $1,411,691 (2002 - $1,025,834), and on an annualized basis were 0.26% (2002 - 0.36%) of the average net assets of EnerVest. Included in accounts payable and accrued liabilities at December 31, 2003 is an amount of $242,825 (2002 - $215,562) owed to the Manager for such items.

9. SUBSEQUENT EVENTS

On February 21, 2004, EnerVest closed a rights offering, issuing an additional 25,058,519 Trust Units for total proceeds of $159.1 million.

CORPORATE GOVERNANCE

The Board of Directors (the "Board") and management of the Manager believe in the importance of good corporate governance and its effectiveness in promoting enhanced shareholder value. All corporations listed on the TSX must now annually disclose their approach to corporate governance with specific reference to each of the Guidelines. The Board has commenced a process of analyzing and considering, and implementing the Guidelines in a manner appropriate for EnerVest. This process is on going. In some instances, as described in more detail below, certain of the Guidelines have not been adopted as the Board believes that such Guidelines are not appropriate for EnerVest.

GUIDELINES	COMPLIANCE COMMENTS
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, including; a) the adoption of a strategic planning process; b) the identification of the principal risks of the Trust's business and the implementation of appropriate systems to manage these risks; c) succession planning, including appointing, training and monitoring senior management; d) the Trust's communications policy; and e) the integrity of the Trust's internal control and management information systems.	While the Board of Directors has not explicitly acknowledged its responsibility for the stewardship of EnerVest, the Board of Directors through the Manager is required to manage the business and affairs of EnerVest pursuant to the provisions of the Management Agreement and the Declaration of Trust. The Board of Directors approves strategic planning initiatives formulated by management in consultation with the Chief Executive Officer but has not adopted a formal strategic planning process. The Board of Directors assumes responsibility for the identification of the principal risks of EnerVest's business and the implementation of appropriate systems to manage these risks and the integrity of EnerVest's internal control and management information systems through the activities of the audit committee. The responsibility of the Board for the succession planning process with respect to the appointment, training and monitoring of senior management is met through the activities of the entire Board which meets on a periodic basis to review the succession planning process of management. The Board has generally delegated the communications policy to the senior management. Unitholder communications are generally handled by EnerVest's Client Services Department; however, on occasion other members of management or Directors may communicate with shareholders directly. The Board assumes responsibility for both the internal controls and management information of EnerVest.
2. The Board should be constituted with a majority of individuals who qualify as unrelated directors.	The Board is currently composed of five directors, three of whom qualify as unrelated.
3. The analysis of the application of the principles supporting the conclusion in paragraph 2 above.	Mr. Streukens, President and CEO of the Manager and Mr. Fischer, CFO, are related directors by virtue of these positions. The remaining members of the Board are independent of management and are free from any interest and any business or other relationship (other than interests and relationships arising from unitholdings), which could, or could reasonably be perceived to, materially interfere with such director's ability to act in the best interests of EnerVest.

Corporate Governance, continued

GUIDELINES	COMPLIANCE COMMENTS
4. The Board should appoint a committee of directors composed exclusively of outside, i.e., non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.	The Board has retained the responsibility for proposing to the full board new nominees to the Board. The Board has no formal process for assessing directors on an on-going basis. Nominations have generally been the result of recruitment efforts by the Board.
5. The Board should implement a process to be carried out by the Nomination Committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.	The Board has not implemented a formal process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.
6. The existence of an orientation and education program for new recruits to the Board.	The Board has not instituted any formal process at this time for an education or orientation program for new directors.
7. The size of the Board and the impact of the number of directors upon the Board's effectiveness.	The Board believes that its current size is appropriate.
8. The adequacy and form of the compensation of directors should realistically reflect the responsibilities and risk involved in being an effective director.	Periodically the Board reviews the compensation of directors and believes that the present compensation is fair.
9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors.	EnerVest currently has one committee being the Audit Committee. This committee is comprised of three directors, two of which are regarded by the Board of Directors as being unrelated
10. The Board's responsibility for (or a committee of the Board's general responsibility for) developing the Corporation's approach to governance issues.	The Board of Directors has retained responsibility for developing EnerVest's approach to corporate governance and to ensure the continuing effectiveness of the Board and its various committees.

Corporate Governance, continued

GUIDELINES	COMPLIANCE COMMENTS
11. The Board has developed: a) position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities; and b) the corporate objectives for which the CEO is responsible for meeting.	The Board has not developed formal position descriptions for the Board, nor the CEO although the Board of Directors has set certain guidelines for the limits of authority on members of management.
12. The structures and procedures ensuring that the Board can function independently of management.	The Board has not chosen an unrelated director to be Chairman, nor established any other formal procedures to ensure that the Board can function independently of management. However, the Board believes that it does function independently from management since its composition has 60% independent and unrelated directors.
13. a) The Audit Committee of the Board should be composed only of outside directors. b) The roles and responsibilities of the Audit Committee should be specifically defined. c) The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. d) The Audit Committee's duties should include oversight responsibility for management reporting on internal controls and should ensure that management has designed and implemented an effective system on internal controls.	The Audit Committee consists of Messrs. Streukens, Martin and Sedgwick, two of which are unrelated directors. The mandate of the Audit Committee includes oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board approval, the audited financial statements and other mandatory disclosure releases containing financial information. The Audit Committee meets at least annually with EnerVest's auditors to review the scope of the audit, the result of the audit and the auditor's evaluation of EnerVest's internal controls.
14. The existence of a system which enables an individual director to engage an outside adviser at the expense of the Corporation in appropriate circumstances.	The Board permits the Directors, when appropriate, to engage outside advisors at the expense of EnerVest.

BOARD APPROVALS AND STRUCTURE

The Board responds to and if it considers appropriate approves, with such revisions as it may require, trust objectives and recommended courses of action, which have been brought forward by Board members and management. The Board retains plenary power for those functions not specifically delegated by it from time to time to management. In addition to maintaining the powers it must retain by statute, significant business activities, actions and communications proposed to be taken or submitted by EnerVest are subject to Board approval.

Significant changes, long range plans, major changes in the organizational structure of EnerVest, annual financial statements, major acquisition and disposition transactions, major financing transactions involving the issuance of units, debt or other commitments, appointment of officers and succession plans are all subject to Board approval.

EXPECTATIONS OF SENIOR MANAGEMENT

The Board is involved in monitoring and assessing senior management through its regular contact with the management team, most of whom participate in presentations to the Board. In addition, the Board assesses the individual performance of the President and Chief Executive Officer and the rest of senior management as part of its review process.

Trust Information

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Jeffrey J. McCaig
S. Neil Sedgwick (1)
Michael L. Streukens (1)

(1) Member of the Audit Committee

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President & CEO

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C.F.O.

J. Ward Mallabone
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AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange

SYMBOL

EIT.UN

CANADA POST POSTES CANADA

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if mailed in Canada
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Correspondance-réponse d'affaires

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